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Notice to Practitioners: Auditor's responsibility concerning statement of actuarial opinion required by insurance regulators

American Institute of Certified Public Accountants. Auditing Standards Division

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Notice to Practitioners

February 1991

Auditor's Responsibility Concerning Statement of Actuarial Opinion Required by Insurance Regulators

Auditing Standards Division

AICPA

American Institute of Certified Public Accountants

NOTICE TO READERS

This Notice to Practitioners is intended to provide guidance on an auditor's responsibility concerning statement of actuarial opinion required by insurance regulators. This document has been prepared by the AICPA staff in consultation with members of the Insurance Companies Committee, and has not been approved, disapproved, or otherwise acted upon by a senior technical committee of the AICPA.

Dan M. Guy
Vice President, Auditing

Ellise Konigsberg
*Technical Manager
Accounting Standards*

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Auditor's Responsibility Concerning Statement of Actuarial Opinion Required by Insurance Regulators

1. The National Association of Insurance Commissioners' (NAIC) Annual Statement Instructions for life, accident, and health insurance companies and, beginning for calendar year 1990 filings, for property and casualty insurance companies require that the companies file with state regulatory authorities a statement of actuarial opinion about specified reserves and other actuarial items reported in the statutory annual statement (actuarial opinion). The actuarial opinion is required to be filed on or before March 1 with the statutory annual statement as of the preceding December 31. In many cases, the actuarial opinion will be filed before the auditor has completed the audit of the insurance company's financial statements.

2. The actuarial opinion is required to be provided by a qualified actuary, as defined by the NAIC Annual Statement Instructions. The qualified actuary may be an officer or employee of the insurance company or may be unrelated to the insurance company.

3. The NAIC Annual Statement Instructions prescribe the contents of the actuarial opinion and provide illustrative wording that may be used for those opinions. The NAIC Annual Statement Instructions state that, if the actuary has examined the underlying data on which the reserves or other actuarial items are based, the actuarial opinion should include a statement in the scope paragraph such as the following:

My examination included such review of the actuarial assumptions and actuarial methods and of the underlying basic records (and/or summaries) and such tests of the actuarial calculations as I considered necessary.

4. If the actuary has not examined the underlying data, the NAIC Annual Statement Instructions provide that the scope paragraph of the actuarial opinion should include a statement such as one of the following:

I relied on listings and summaries of policies in force (or underlying records and/or summaries) prepared by [*name and title of company officer certifying in-force records*]. In other respects, my examination included such review of the actuarial assumptions and actuarial methods and such tests of actuarial calculations as I considered necessary.

I relied on [*name of accounting firm*] for the accuracy of the in-force records inventory (or underlying records and/or summaries). In other respects, my examination included such review of the actuarial assumptions and actuarial methods and such tests of the actuarial calculations as considered necessary.

Question: What is the auditor's responsibility when an actuary, in the actuarial opinion, assumes responsibility for the examination of the underlying data on which actuarial items are based?

Answer: If the actuary is not an employee of the auditor's firm, the auditor has no responsibility for the statements made in the actuarial opinion. In those situations, the auditor may be requested to assist in the actuary's examination of the data underlying the loss reserves. The auditor may provide such assistance to the actuary by issuing a special report based on applying agreed-upon procedures to the data underlying the loss reserves. SAS No. 35, *Special Reports—Applying Agreed-Upon Procedures to Specified Elements, Accounts, or Items of a Financial Statement* (AICPA, *Professional Standards*, vol. 1, AU sec. 622), provides guidance on reports based on agreed-upon procedures. If the auditor provides the actuary with such a report, the auditor should advise the actuary that the actuarial opinion should not refer to the work of the auditor.

If the actuary providing the actuarial opinion is an employee of the auditor's firm, the actuary may state that he or she has examined the data underlying the loss reserves only if sufficient procedures have been completed such that the auditor would be in a position to express an opinion on the underlying data. SAS No. 62, *Special Reports*, paragraphs 11 through 14 (AICPA, *Professional Standards*, vol. 1, AU sec. 623.11–623.14), provides guidance on procedures for auditors to follow when expressing such an opinion.

Question: What is the auditor's responsibility if an actuary who is not an employee of the auditor's firm states in the actuarial opinion that he or she relied on the auditor for the accuracy of the underlying data?

Answer: The auditor should not consent to be referred to in an actuarial opinion in which the actuary expresses reliance on the auditor for the accuracy of underlying data. If the auditor becomes aware that an actuary has expressed such reliance on the auditor, the auditor should advise the actuary that he or she does not consent to such reference, and the auditor should consider other actions that may be appropriate and may also wish to consult with legal counsel.

